

**Supporting Statement for the
Quarterly Report of Assets and Liabilities of
Large Foreign Offices of U.S. Banks
(FR 2502q; OMB No. 7100-0079)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget, proposes to extend for three years, with revision, the Quarterly Report of Assets and Liabilities of Large Foreign Offices of U.S. Banks (FR 2502q; OMB No. 7100-0079). U.S. commercial banks, bank holding companies, including financial holding companies, and banking Edge and agreement corporations (U.S. banks) are required to file this reporting form for their major foreign branches (currently 56 institutions) and large banking subsidiaries (currently 28 institutions).

The FR 2502q collects, for each reporting office, claims on and liabilities to individual countries as of each quarter-end. The data are used to construct a piece of the flow of funds data that are compiled by the Federal Reserve.

The Federal Reserve proposes the following revisions to the FR 2502q reporting form: (1) update the country list to conform more closely to the U.S. Department of State's official country list, (2) add regional subtotals for countries that are not listed on the reporting form, and (3) clarify the country list sub-header to indicate that the areas listed may be countries or dependencies. The Federal Reserve proposes minor revisions to the FR 2502q instructions to indicate that countries or dependencies not listed on the reporting form should be summed in each proposed regional subtotal, rather than current data item, "UNALLOCATED". In addition, the Federal Reserve proposes to make minor changes to the FR 2502q instructions to enhance clarity. The current annual burden is estimated to be 1,176 hours and would remain unchanged. A copy of the reporting form and instructions, marked to show the minor changes, is attached.

Background

The Monthly Report on Foreign Branch Assets and Liabilities (FR 2502; OMB No. 7100-0078) was implemented in 1969 and collected, for the last business day of each month, a breakdown of foreign branch assets and liabilities by category of customer.¹ The data also distinguished between customers in the United States and those in other countries and showed the balance of accounts denominated in U.S. dollars, the balance of those denominated in all other currencies combined, and the total thereof. The Quarterly Report on Foreign Branch Assets and Liabilities (FR 2502s; OMB No. 7100-0079) provided a geographic breakdown of assets and liabilities of foreign branches as of the last day of each quarter (March, June, September, and December), similar to the current FR 2502q. The FR 2502s was implemented in September 1975, at a time when foreign branches experienced greatly increased flows of funds from the oil-exporting countries and increased borrowing by developing countries.

¹ From 1965 to 1969, the Department of the Treasury collected balance-sheet data from foreign branches of U.S. banks.

By the time of the 1993 review of the information collection, the country detail from the quarterly reporting form was still immensely valuable. However, the usefulness of much of the detailed balance sheet data from the monthly reporting form had diminished. In March 1994, a new quarterly reporting form, the current FR 2502q, was formed, merging the necessary information from the FR 2502 and FR 2502s. The new reporting form contained all of the country detail that had been reported on the FR 2502s, plus a handful of data items (some with revision) that had been reported on the FR 2502 that were still needed for construction of the monetary aggregates and Bank for International Settlements (BIS) statistics.² The remaining data items collected monthly on the FR 2502 were dropped. The scope of the reporting panel was broadened to include not only foreign branches of U.S. banking organizations, but large foreign subsidiaries as well.

In 2003, the FR 2502q was revised to include several memorandum items to break out claims and liabilities reported under the unallocated accounts item. In the past, FR 2502q data were combined with data from other sources to develop a profile of the total claims of U.S. banks on residents of individual countries. However, the FR 2502q is no longer used in this way, because data from the quarterly Federal Financial Institutions Examination Council (FFIEC) Country Exposure Report (FFIEC 009; OMB No. 7100-0035), which directly collects exposure of U.S. banks to individual countries, are now compiled in a much more timely manner than in the past. In 2006, several revisions were made to the FR 2502q reporting form and instructions. As a result of the discontinuation of the publication of the monetary aggregate M3 in March 2006, Schedule A was eliminated from the FR 2502q reporting form. In addition, the FR 2502q instructions for the unallocated data items were revised. The panel was also revised to require offices located only in the Caribbean and the United Kingdom to file the FR 2502q, because consolidated reporting of liabilities of foreign offices by country of customer was added to the FFIEC 009.

Justification

The Federal Reserve System, along with other agencies, has an interest in knowing the amounts of the claims and liabilities of U.S.-chartered banks with respect to residents of individual countries. This interest in U.S. banks' claims on foreign residents has been especially active during those times when developing countries have had severe payment difficulties. Liability data were particularly useful at the time of the U.S. freeze of official Iranian and Libyan assets at U.S. banks, including the foreign branches. Also, information on the funds placed with U.S. banks by the oil exporting countries has been of much interest through the years, both to the Federal Reserve System and to the Congress, which has requested a great deal of data on this subject. The need for information on U.S. banks' claims on and liabilities to residents of individual countries will continue to be great. Data from the FR 2502q can be used to provide information about two aspects of U.S. banks' positions vis-à-vis residents of foreign countries. First, data from the FR 2502q can be combined with data from the Treasury International Capital reports to obtain an estimate of the *total* positions of U.S. banks vis-à-vis residents of individual

² These data items included customer detail on transactions with U.S. residents, claims and liabilities with respect to other non-U.S. offices of the parent, and Eurodollar liabilities payable to certain U.S. addressees.

foreign countries.³ Second, data from the FR 2502q provides information about the extent to which positions of U.S. banks vis-à-vis residents of individual foreign countries are booked at foreign offices, by the location of the foreign office and by whether it is a branch or a subsidiary. Such information helps the Federal Reserve understand the nature of activities of foreign offices of U.S. banks, particularly the scope of cross-border activity that is conducted by different foreign offices.

The usefulness of the FR 2502q as a source of information about *total* positions of U.S. banks vis-à-vis residents of individual foreign countries has diminished in recent years. One reason is that the FFIEC 009, which collects data on the claims of U.S.-chartered banks on residents of foreign countries, has become available in a more timely manner and is now available with a lag of about 12 weeks, compared with a two-month lag for the data from the FR 2502q. In addition, the FFIEC 009 was recently revised to include more comprehensive data on banks' liabilities, effective at the end of March 2006.

Nevertheless, the FR 2502q continues to provide data about the nature and scope of activities in foreign offices by location and type of office that is unavailable from other reporting forms. Because the banks' submissions that underlie the FFIEC 009 are consolidated on a worldwide basis, they do not indicate which particular offices are involved in lending to or borrowing from residents of a given country. For example, they cannot show the extent to which total claims on a specific country are booked, for example, at London or Caribbean offices, or at subsidiaries or branches.

For many years, the monitoring of international banking developments on a worldwide scale, involving U.S. and non-U.S. banks, has been greatly facilitated by the collection and dissemination activities of the BIS. Through its member central banks, the BIS collects data on the international operations of banks in the major Western European countries, the United States, Canada, Japan, the major offshore banking centers, and some of the smaller Western European countries. This information is aggregated and results are published in the BIS quarterly reports. The BIS uses the FR 2502q data on branches of U.S. banks in the Bahamas and Cayman Islands in preparing its quarterly release.

In addition, the Department of Commerce uses FR 2502q data on branches of U.S. banks in the Bahamas and the Cayman Islands (together with data from the Supplement to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002s; OMB No. 7100-0273)) in its estimates of the capital accounts portion of the balance of payments. Other sources of data that could be used in these estimates are available only with a lag of several months. The Federal Reserve uses memorandum item 1.c., Claims on, and liabilities to, U.S. addressees other than depository institutions, as input to the flow of funds data.

³ In combining the two sets of data, intrabank accounts are netted out on the basis of data from a memoranda item in the FR 2502q.

Description of Information Collection

The FR 2502q collects data quarterly on the geographic distribution of the assets and liabilities of major foreign branches and subsidiaries of U.S. commercial banks, bank holding companies, including financial holding companies, and of banking Edge and agreement corporations.

Reporting Panel

U.S. commercial banks, bank holding companies, and banking Edge and agreement corporations are required to file the FR 2502q for their major foreign branches and large banking subsidiaries that are located in the Caribbean or the United Kingdom. Major foreign branches are defined as those with assets of \$500 million or more, payable in all currencies. Large banking subsidiaries are defined as those that file the Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314; OMB No. 7100-0073) quarterly, have a banking charter, and have assets of \$2 billion or more *and* deposits of \$10 million or more. The Federal Reserve recommends making no change to the reporting thresholds for either branches or subsidiaries.

Proposed Revisions

The Federal Reserve proposes revisions to the FR 2502q reporting form and instructions. The reporting form would be modified by adding the following countries and dependencies: Andorra, Guernsey, Jersey, and Liechtenstein (in the Europe region), Antigua and Barbuda, Aruba, St. Kitts and Nevis, and St. Lucia (in the Latin America and the Caribbean region), Maldives (in the Asia region), and Marshall Islands and Federated States of Micronesia (in Other Countries). In addition, the Former Yugoslav Republic of Macedonia would be renamed Macedonia. These proposed changes to the FR 2502q country list are necessary to conform more closely to the U.S. Department of State's official country list as well as the Treasury International Capital (TIC) geographic classifications. The Federal Reserve also proposes to add regional subtotals for countries that are not currently listed on the reporting form in order to more closely conform to the FFIEC 009 reporting form. Finally, the Federal Reserve proposes to clarify the country list sub-header to indicate that the areas listed may be countries or dependencies.⁴

The FR 2502q instructions would also be modified to indicate that countries or dependencies not listed on the reporting form should be summed in each proposed regional subtotal, rather than current data item, "UNALLOCATED". In addition, the Federal Reserve would make minor changes to the FR 2502q instructions to enhance clarity.

⁴ A dependent territory, dependent area or dependency is a territory that does not possess full political independence or sovereignty as a State.

Frequency

Respondents file the FR 2502q as of the last business day of the quarter with their Reserve Bank. A less frequent periodicity would have serious adverse consequences for two reasons: First, because developments affecting international borrowing and lending occur rapidly, data collected less frequently would be much less useful for analytical and supervisory purposes. These purposes include use of these statistics in U.S. balance of payments and flow of funds data. Second, the BIS quarterly series on international banking assets and liabilities would become less complete and less useful. The BIS uses quarterly submissions for branches of U.S. banks in some offshore banking centers to estimate the positions of all banks in these centers on dates for which the authorities there do not submit any report.

Time Schedule for Information Collection and Publication

Respondents file the FR 2502q quarterly, as of the last business day of the quarter, with their Reserve Bank no later than the second Thursday of the second month following the report date. The staff at the Reserve Banks edits and then transmits the data to the Federal Reserve Board for central processing. The data (aggregated for all reporters by country) are published by the Federal Reserve Board in the quarterly E.11 statistical release, *Geographical Distribution of Assets and Liabilities of Major Foreign Branches of U.S. Banks*. The FR 2502q is the sole source of data for the release. The FR 2502q data relating to branches in offshore centers are an integral part of the BIS quarterly reports on international banking assets and liabilities. The FR 2502q data relating to branches in offshore centers are also used by the Department of Commerce in estimating the capital accounts portion of the balance of payments.

Legal Status

The Federal Reserve Board's Legal Division has determined that 12 U.S.C. §248(a) (2), 353 et seq., 461, 602, and 625 authorize the Federal Reserve Board to require the report. Individual respondent data are regarded as confidential under the Freedom of Information Act (5 U.S.C. §552(b) (4)).

Consultation Outside the Agency

On December 23, 2008, the Federal Reserve published a notice in the *Federal Register* (73 FR 78797) requesting public comment for 60 days on the extension, with revision, of the FR 2502q. The comment period for this notice expires on February 23, 2009.

Estimate of Respondent Burden

The current annual burden for the FR 2502q is estimated to be 1,176 hours annually, as shown in the following table. As of June 30, 2008, there are 84 branches and subsidiaries; however, since some of FR 2502q reporters choose to file one consolidated report for all of their subsidiaries, only 65 reports were submitted. The estimated average response time (3.5 hours) is the same for data that are submitted on an individual and a consolidated basis. The estimated response time for the FR 2502q will not change as a result of the revisions. The annual burden for the FR 2502q represents less than 1 percent of the total Federal Reserve System paperwork burden for all reports.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR 2502q	84	4	3.5	1,176

The total cost to the public for the FR 2502q is estimated to be \$72,500.⁵

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing this report will be obtained.

⁵ Total cost to the public was estimated by multiplying annual burden hours by an estimated hourly rate. The hourly rate was estimated using a weighted average of hourly rates for each of four occupational groups, where the weights are the estimated input share for each occupational group. The input shares and hourly rates for the occupational groups are: 30% Clerical @ \$25, 45% Managerial or Technical @ \$55, 15% Senior Management @ \$100, and 10% Legal Counsel @ \$144. The hourly rates for each occupational group are averages using data from the Bureau of Labor and Statistics, *Occupational Employment and Wages*, news release. The resulting estimated hourly rate is \$61.65.